



Province of Alberta

MINES AND MINERALS ACT

OIL SANDS TENURE REGULATION

Alberta Regulation 50/2000

With amendments up to and including Alberta Regulation 195/2008

Office Consolidation

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Queen's Printer Bookstore
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Note

All persons making use of this consolidation are reminded that it has no legislative sanction, that amendments have been embodied for convenience of reference only, and that the original Regulations should be consulted for all purposes of interpreting and applying the law.

(Consolidated up to 195/2008)

ALBERTA REGULATION 50/2000

Mines and Minerals Act

OIL SANDS TENURE REGULATION

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Definitions

1 In this Regulation,

- (a) “Act” means the *Mines and Minerals Act*;
- (b) “bitumen” means an oil sands product that results from the application of a process or treatment to crude bitumen;
- (c) “Board” means the Energy Resources Conservation Board;
- (d) “continued lease” means a primary lease or deemed primary lease that is continued under section 13, or a lease that is continued under section 14;
- (e) “deemed primary lease” means
 - (i) a second term oil sands lease, other than a second term oil sands lease that is subject to a development plan approved under section 9 of the former *Oil Sands Regulation*,
 - (ii) an oil sands lease issued pursuant to the former *Oil Sands Regulation* out of a permit, or
 - (iii) an oil sands development lease issued pursuant to section 13 of the former *Oil Sands Regulation*;
- (f) “escalating rental” means the portion of annual rental of a continued lease that is calculated in accordance with Part 2;
- (g) “existing oil sands lease” means a first term oil sands lease, second term oil sands lease or a third term oil sands lease;

- (h) “first term oil sands lease” means a lease of oil sands rights that is in force at the time this Regulation comes into force and has been issued pursuant to one of the following repealed regulations, but does not include a lease issued on the renewal of a lease:
- (i) the *Oil Sands Regulation, 1978* (AR 317/78);
 - (ii) the *Oil Sands Regulations, 1969* (AR 298/69);
 - (iii) the *Oil Sands Regulations, 1962* (AR 378/62);
 - (iv) the *Bituminous Sands Regulations, 1962* (AR 342/62);
 - (v) *The Oil Sands Regulations* (AR 144/61);
 - (vi) *Regulations Governing Disposition of Bituminous Sands Rights the Property of the Crown* (AR 333/57);
- (i) “former *Oil Sands Regulation*” means the *Oil Sands Regulation* (AR 228/91) that is repealed by this Regulation;
- (j) “lease” means an agreement issued in the form of a lease that grants rights in respect of oil sands;
- (k) “lessee” means the holder of a lease according to the records of the Department;
- (l) “oil sands agreement” means a permit or a lease;
- (m) “oil sands products” means crude bitumen, bitumen, synthetic crude oil or any other product obtained from oil sands by processing, reprocessing or any other means;
- (n) “permit” means an agreement issued in the form of a permit that grants rights in respect of oil sands;
- (o) “permittee” means the holder of a permit according to the records of the Department;
- (p) “primary lease” means
- (i) a lease issued in accordance with this Regulation out of a permit,
 - (ii) a lease issued as a result of an application under section 11, or

- (iii) any other lease that is issued under section 16 of the Act after this Regulation comes into force,
but does not include a deemed primary lease;
- (q) “producing”, in relation to a lease, means that oil sands are, in the opinion of the Minister, being produced from a zone or zones in the location of the lease;
- (r) “second term oil sands lease” means a lease of oil sands rights that, at the time this Regulation comes into force, has been issued on the renewal of a first term oil sands lease and is in force;
- (s) “third term oil sands lease” means a lease of oil sands rights that, at the time this Regulation comes into force, has been issued on the renewal of a second term oil sands lease and is in force;
- (t) “upgrader” means a facility for upgrading that is located in Alberta;
- (u) “upgrading” means any process that improves the quality of bitumen solely by the increase in the degrees of gravity of the product that is not attributable to the use of diluent.

AR 50/2000 s1;254/2007

Designation as producing and non-producing**2** A reference in this Regulation to a lease

- (a) that has been designated as producing includes a lease that is deemed to have been designated as producing, and
- (b) that has been designated as non-producing includes a lease that is deemed to have been designated as non-producing.

Minimum level of evaluation**3(1)** For the purpose of sections 9(2) and 13(2), the minimum level of evaluation of the oil sands in a permit or lease is the level of evaluation that the Minister considers appropriate under subsection (2), (3) or (6).**(2)** For the purpose of this subsection, the minimum level of evaluation consists of

- (a) the drilling of one well (referred to as an evaluation well) in each section or part of a section within the location of the permit or lease, to evaluate the oil sands zone or zones,

- (b) the evaluation wells being located in a pattern that, in the opinion of the Minister, is sufficiently even and uniform, and
- (c) obtaining data from the oil sands zone or zones from at least 25% of the evaluation wells
 - (i) by coring through the oil sands zone or zones within the locations of those wells, or
 - (ii) by coring through the oil sands zone or zones within the locations of not less than 15% of the evaluation wells and, in the balance of the evaluation wells being used to obtain data for the purposes of this clause, obtaining data respecting the oil sands zone or zones through the use of down hole tools that produce data that, in the opinion of the Minister, is equivalent to the data obtained by coring,

and submitting that data to the Department.

(3) For the purpose of this subsection, the minimum level of evaluation consists of

- (a) the drilling of wells (referred to as evaluation wells) in not less than 60% of the sections, the whole or part of which is within the location of the permit or lease, to evaluate the oil sands zone or zones,
- (b) the evaluation wells being located in a pattern that, in the opinion of the Minister, is sufficiently even and uniform,
- (c) obtaining data from the oil sands zone or zones from at least 25% of the evaluation wells by coring through the oil sands zone or zones within the location of those wells and submitting that data to the Department, and
- (d) obtaining seismic data in accordance with subsection (4) or electromagnetic data in accordance with subsection (5), in respect of each section or part of a section contained in the location of the permit or lease in which an evaluation well was not drilled and submitting that data to the Department.

(4) Seismic data referred to in subsection (3)(d) must be obtained in accordance with the following requirements:

- (a) there must be 3.2 kilometres of seismic line for each section referred to in subsection (3)(d) and a length of seismic line for each portion of a section that is in the

same ratio to 3.2 kilometres that the portion of the section is in area to a section;

- (b) the seismic lines must have a fold and a station and group interval adequate to image the bitumen reservoir and the Devonian subcrop;
- (c) the seismic lines must be tied to the evaluation wells in a manner and to an extent that the Minister considers adequate.

(5) Electromagnetic data referred to in subsection (3)(d) must be obtained in accordance with the following requirements:

- (a) the section or part of a section from which it is obtained must be within an area that the Board has determined to be an area in which surface mining is possible or must be approved by the Minister as a site where or from which electromagnetic data may be obtained;
- (b) each section or part of a section must be evaluated by the electromagnetic data to the base of the deepest oil sands zone in the section or the part of a section.

(6) The Minister may, for the purpose of an application under section 9 or 13, prescribe a minimum level of evaluation that differs from the minimum level described under subsection (2) or (3) by waiving or varying any of the requirements set forth in subsection (2) or (3) or by imposing requirements that are additional to those requirements.

Part 1 Oil Sands Agreements

Rights conveyed

4 An oil sands agreement conveys the exclusive right to drill for, win, work, recover and remove oil sands that are the property of the Crown

- (a) within the location, or
- (b) if the agreement relates to one or more specified zones, in the specified zone or zones within the location,

in accordance with the terms and conditions of the agreement.

Maximum area

5 The maximum area of the location of an oil sands agreement is 22 000 hectares and the boundaries of the area are in the discretion of the Minister.

Rental

6 The annual rental for a year of the term of an oil sands agreement is

- (a) the amount payable at the rate prescribed in the *Mines and Minerals Administration Regulation* (AR 262/97), and
- (b) any escalating rental payable under Part 2 of this Regulation.

Term of permit

7 The term of a permit is 5 years.

Application for lease issued out of permit

8(1) A permittee may, during the term of the permit, apply for a primary lease of oil sands rights in the location of the permit.

(2) If the Minister approves an application for a primary lease under subsection (1) after the term of the permit has expired, the term of the permit is deemed to be continued until the term of the primary lease commences.

Grounds for issuing lease

9(1) The Minister shall not issue a primary lease out of a permit unless the application for the lease is accompanied by a technical report containing the information and data required by the Minister.

(2) The Minister shall determine whether a primary lease will be issued out of a permit and the portion or portions of the permit that will be contained in the primary lease based on the extent and degree to which, in the opinion of the Minister, the permittee has attained the minimum level of evaluation of the oil sands in the permit required under section 3.

Notice of refusal to issue lease

10(1) If the Minister refuses to issue a primary lease out of a permit pursuant to section 9, the Minister shall forthwith give to the applicant a written notice advising the applicant of the reasons for the refusal and specifying the period of time within which the permittee is entitled to respond to the notice.

(2) If

- (a) the permittee does not respond to a notice given by the Minister under subsection (1) within the period of time specified in the notice, or
- (b) the Minister disagrees with a response given by a permittee,

the Minister's decision to refuse to issue a primary lease out of a permit is final.

Application for primary lease out of first term oil sands lease

11(1) A lessee of a first term oil sands lease may,

- (a) within the last year of the term of the lease, or
- (b) with the consent of the Minister, at any time before the last year of the term of the lease,

apply to the Minister for a primary lease of oil sands rights in the location of the first term oil sands lease.

(2) If the Minister receives an application under subsection (1), the Minister shall issue the primary lease with a term that begins at the end of the term of the first term oil sands lease.

Term

12(1) The term of a primary lease is 15 years.

(2) The term of a deemed primary lease that is an oil sands development lease issued under section 13 of the former *Oil Sands Regulation* is extended from 10 years to 15 years.

(3) The term of any other deemed primary lease is not changed by this Regulation, except that if its term would otherwise expire during the period from the coming into force of this Regulation to and including May 30, 2002, its term is extended to May 31, 2002.

(4) The term of a first term oil sands lease is not changed by this Regulation.

Part 2 Continued Leases

Continuation of primary leases and deemed primary leases

13(1) A lessee of a primary lease or a deemed primary lease may

- (a) within the last year of the term of the lease, or
- (b) with the consent of the Minister, at any time before the last year of the term of the lease,

apply to the Minister for approval of the continuation of the lease pursuant to this section.

(2) Where a lessee has made an application under subsection (1), the Minister shall determine whether the lease will be continued after the expiration of its term and the portion or portions of the lease that will be continued based

- (a) on the extent and degree to which, in the opinion of the Minister, the lessee has attained the minimum level of evaluation of the oil sands in the lease required by section 3, and
- (b) on whether the lease is producing.

(3) When the Minister makes a determination under subsection (2), the Minister shall designate

- (a) the portion or portions of the lease that are continued, and
- (b) whether the portion or portions that are continued are producing or non-producing.

(4) On having made a determination under subsection (2), the Minister shall advise the lessee of the determination, and the lease ceases, after the expiration of its term, to include any part of the location or any subsurface area in all or part of the location that is not approved for continuation by reason of the determination.

(5) If a lessee of a primary lease or deemed primary lease does not apply to continue the lease before its term expires, the lease expires at the end of its term and any right of renewal is extinguished.

Continuation of existing oil sands leases

14(1) Second term oil sands leases that are subject to a development plan approved under section 9 of the former *Oil Sands Regulation* and third term oil sand leases are, on the coming into force of this Regulation,

- (a) continued leases, and
- (b) deemed to be designated as producing.

(2) If the lessee of a lease continued under subsection (1) that is subject to a development plan fails to comply with and meet the milestones in the development plan or alters or reduces the

development plan without the prior written consent of the Minister, the Minister may cancel any part or parts of the location of those leases then being held as a result of the attribution of bitumen reserves to the development plan.

Liability to pay escalating rental

15(1) The lessee of a continued lease that is designated as non-producing is liable to pay to the Crown an escalating rental calculated under section 16.

(2) Escalating rental for a year of the term of a lease is due and payable 30 days after the last day of that year.

(3) Section 20 of the *Mines and Minerals Administration Regulation* (AR 262/97) does not apply to escalating rental.

Determination of escalating rental

16(1) For the purposes of this section,

- (a) “Area A” means those areas defined by the Board as the Peace River Oil Sands Area and the Athabasca Oil Sands Area, excepting from the Athabasca Oil Sands Area
 - (i) the lands identified by the Board as surface mining areas, and
 - (ii) that block of land that is between ranges 16 and 26 inclusive and townships 76 and 86 inclusive, west of the 4th Meridian;
- (b) “Area B” means the area defined by the Board as the Cold Lake Oil Sands Area, those lands identified by the Board as the surface mining areas of the Athabasca Oil Sands Area and that block of land that is between ranges 16 and 26 inclusive and townships 76 and 86 inclusive, west of the 4th Meridian.

(2) Subject to sections 17 to 20, the escalating rental is,

- (a) in respect of each year of the first 3-year period of a continued lease that is not designated as a producing lease, an amount calculated at the rate set out in subsection (3) for each hectare in the area of the location of the lease, and
- (b) in respect of each year of each subsequent 3-year period of a continued lease that is not designated as a producing lease, an amount for each hectare in the area of the location of the lease that is the lesser of

- (i) an amount calculated at a rate that is double the amount per hectare for the immediately preceding 3-year period of the continued lease, and
 - (ii) \$96, where the hectare or part of the hectare is in Area A or \$224, where the hectare or part of the hectare is in Area B.
- (3) The rate referred to in subsection (2)(a) is
- (a) \$3.00 per hectare where the hectare or part of the hectare is in Area A, and
 - (b) \$7.00 per hectare where the hectare or part of the hectare is in Area B.
- (4) The escalating rental payable in respect of a continued lease
- (a) that has been designated under section 21 as producing, and
 - (b) that is then designated as non-producing under section 22

is an amount calculated at, and based on, the rate per hectare that was being paid during the period when the lease was non-producing that preceded the effective date of the designation under section 21.

Research costs

- 17(1)** A project is not a research project for the purpose of this Regulation unless the particulars of the project have been set out to the satisfaction of the Minister in a corporate budgetary document that has been accepted and approved by the Minister.
- (2) In this section, the term of a research project is
- (a) the actual number of years that the project is in effect up to a maximum of 5 years, and
 - (b) if the research project is operated for more than 5 years, any 5 consecutive years of the project that is selected by the lessee for the purposes of this section.
- (3) A lessee may apply research costs described in Schedule 1 to reduce the escalating rental calculated under section 16 in respect of continued leases subject to the following rules:
- (a) the lessee of the continued lease or leases in respect of which the research costs will be applied pursuant to this section must identify the leases to the Minister before a reduction in escalating rental is made;

- (b) if the research costs pertain to research conducted off the location of the continued lease, the lessee must provide the Minister with written reasons satisfactory to the Minister supporting the technical rationale for conducting the research off the location;
- (c) research costs incurred in a year of the term of a research project may be applied to reduce the escalating rental in any year of a continued lease that falls in whole or in part within the term of the research project or the 2 years next following the term of the research project;
- (d) if the research costs incurred in a year of the term of a research project pertain to research that has a direct connection and application to one or more continued leases that are subject to a development plan (“total yearly development plan research costs”), the portion of those research costs that may be available for allocation among continued leases that have been acquired after the coming into force of this Regulation shall not exceed an amount equal to the difference between
 - (i) the total yearly development plan research costs, and
 - (ii) the total of the escalating rentals that would have been payable under section 16 in respect of continued leases subject to the development plan from the location of which no production was obtained during that year of the term of the research project, calculated in respect of the year or years of those continued leases that fall within that year of the term of the research project and as if those continued leases had been designated by the Minister under this Regulation as non-producing;
- (e) subject to clause (f), the research costs applied to reduce the escalating rental must be incurred after the lease is continued;
- (f) costs incurred on research conducted during the last 5 years of a primary lease or deemed primary lease that would, in relation to that lease, have been research costs if that lease had then been a continued lease may be applied to reduce the escalating rental of any of the first 10 years of the lease after it is continued under section 13;
- (g) two or more continued leases may be designated as being pooled for allocation of research costs from a research project and, if the Minister approves the pooling, research costs incurred in a year of the research project may be allocated

- (i) to any year or years of any of the leases so pooled that fall in whole or in part within the term of the research project or within the 2 years next following the term of the research project, and
- (ii) to reduce the escalating rental attributed to those years of the pooled leases;
- (h) no item or portion of research costs may reduce escalating rental more than once.

Exploration costs

18 A lessee may apply exploration costs described in Schedule 1 to reduce the escalating rental calculated under section 16 in respect of a continued lease subject to the following:

- (a) exploration costs incurred in a year of a continued lease may be applied only to reduce the escalating rental attributed to that year of the continued lease;
- (b) exploration costs can be applied to reduce the escalating rental attributed to a year of a continued lease only if, in the opinion of the Minister, the costs have been physically incurred on the location of the lease;
- (c) no item or portion of exploration costs may reduce escalating rental more than once.

Development costs

19 A lessee may apply development costs as described in Schedule 1 to reduce the escalating rental calculated under section 16 in respect of a continued lease subject to the following:

- (a) development costs incurred in a year of a continued lease may be applied only to reduce the escalating rental attributed to that year of the continued lease;
- (b) development costs can be applied to reduce the escalating rental attributed to a year of a continued lease if the costs have been physically incurred on the location of the lease or, in the opinion of the Minister, for the development of the oil sands in the location of the lease;
- (c) development costs physically incurred on the location of or, in the opinion of the Minister, for the development of the oil sands within the location of a primary lease or deemed primary lease during the last 5 years of the lease may be applied to reduce the escalating rental of any of

the first 10 years of the lease after it is continued under section 13;

- (d) no item or portion of development costs may reduce escalating rental more than once.

Upgrader credits

20(1) A lessee who is upgrading bitumen or crude bitumen derived from the oil sands within the location of the lessee's lease using either the lessee's upgrader or, under written contract, another person's upgrader may apply to the Minister for upgrader credit.

(2) The Minister may award upgrader credits determined in accordance with the formula in Schedule 2 to a lessee who has submitted an application under subsection (1) and the lessee may reduce the hectares of a continued lease subject to an escalating rental in an amount equal to the number of upgrader credits awarded.

(3) Notwithstanding anything in this section, bitumen or crude bitumen produced from a lease that was a second term oil sands lease that is subject to a development plan approved under section 9 of the former *Oil Sands Regulation* is not eligible for upgrader credits unless it is bitumen or crude bitumen that exceeds the level of production approved by the development plan for the lease.

(4) Subject to subsection (5), a lessee may apply the lessee's upgrader credits to any year of any continued lease held by the lessee.

(5) A lessee may apply the lessee's upgrader credits to more than one lease only if

- (a) the escalating rental of all of the leases to which the credits are applied is reduced to zero, or
- (b) the escalating rental of all but one of the leases to which the credits are applied is reduced to zero.

(6) No portion of upgrader credits may be applied more than once to reduce the hectares subject to an escalating rental.

Change of designation to producing

21(1) The lessee of a continued lease that has been designated as non-producing may apply to the Minister to have the designation of the lease changed to producing.

(2) The Minister may change the designation of the lease to producing by giving notice in writing to the lessee if

- (a) the lessee applies for the change in designation in accordance with subsection (1), and
- (b) the lease is producing.

(3) A change in the Minister's designation of a lease to producing is effective on the anniversary of the term commencement date of the lease that follows the date on which the Minister changes the designation.

(4) From the effective date of a change in designation under subsection (3), the lease ceases to be subject to the payment of escalating rental until the Minister changes the designation of the lease back to non-producing.

Change of designation to non-producing

22(1) If, at any time after the continuation of a lease, oil sands have, in the opinion of the Minister, ceased to be produced from the location of the lease for a period of 3 years or more, the Minister may change the designation of the lease to non-producing by giving notice in writing of the change to the lessee.

(2) A change in the Minister's designation of a lease to non-producing is effective on the anniversary of the term commencement date of the lease that follows the date on which the Minister changes the designation.

(3) From the effective date of a change in designation under subsection (1), the lease is subject to the payment of escalating rental until the Minister changes the designation of the lease back to producing.

Part 3 Ministerial Notices and Directions

Notice respecting production

23 The Minister may, if the Minister considers that it is warranted in the circumstances and notwithstanding that a lease has been designated as producing, at any time during the term or continuation of a lease give notice to the lessee requiring the lessee, within the time specified in the notice, to commence production or recovery of, or to increase the existing production or recovery of, bitumen or other oil sands products from the oil sands within the location of the lease.

Obligation to comply

24 If a lessee fails to comply with a notice given under section 23 within the time specified by the notice, the Minister may, pursuant to section 45 of the Act, cancel the lease as to all or part of its location or as to any zone or subsurface area underlying all or part of its location.

AR 50/2000 s24;251/2001

Other minerals in oil sands

25 The Minister may direct a lessee to test for, evaluate and extract from oil sands any mineral substance in association with the oil sands within and under the location of the lessee's lease and the lessee must comply with that direction.

Part 4 Consequential Amendments, Repeals and Expiry

26 *(This section amends the Oil Sands Royalty Regulation, 1997 (AR 185/97). The amendments have been incorporated into that Regulation.)*

Repeal

27 The *Oil Sands Regulation* (AR 228/91) is repealed.

Expiry

28 For the purpose of ensuring that this Regulation is reviewed for ongoing relevancy and necessity, with the option that it may be repassed in its present or an amended form following a review, this Regulation expires on December 1, 2010.

AR 50/2000 s28;354/2003;195/2008

Schedule 1

1 A cost is a "research cost" for the purpose of section 17 of this Regulation

- (a) if it is incurred in respect of any research project that, in the opinion of the Minister,
 - (i) has a direct connection and application to a continued lease,
 - (ii) is incurred to solve or overcome economic, environmental or technical problems or obstacles associated with the recovery of oil sands from a continued lease, and

- (iii) is being done with the intention or the purpose of fostering or promoting the development of a continued lease or with the intention of obtaining an approval from the Crown for a proposed development project that could include the lease,

and

- (b) if it qualifies as an allowable cost under section 4 of this Schedule.

2 A cost is an “exploration cost” for the purpose of section 18 of this Regulation

- (a) if it is incurred in respect of any exploration work that, in the opinion of the Minister,
 - (i) has a direct connection and application to a continued lease, and
 - (ii) is incurred to evaluate the lease, or to bring the lease into production,

and

- (b) if it qualifies as an allowable cost under section 4 of this Schedule.

3 A cost is a “development cost” for the purpose of section 19 of this Regulation

- (a) if it is incurred in respect of any development work that, in the opinion of the Minister,
 - (i) has a direct connection and application to a continued lease, and
 - (ii) is incurred to develop the lease, or to bring the lease into production,

and

- (b) if it qualifies as an allowable cost under section 4 of this Schedule.

4(1) In order for a cost to qualify as an “allowable cost”,

- (a) the lessee must provide documentation satisfactory to the Minister showing that the cost is a real financial transaction, and

- (b) the cost must be reasonable, in nature and amount, in relation to the circumstances under which it is incurred and must not exceed the fair value of the matter in relation to which the cost arises.
- (2) A cost is not an “allowable cost” to the extent that
- (a) any credits or discounts that are intended to reduce or offset the cost are actually received by the lessee or the operator or owner of the project in which the cost was incurred or an affiliate of any of them, or
- (b) any economic assistance (other than economic assistance in the form of a reduction in income tax payable or in the form of a reduction of royalty, royalty proceeds or royalty compensation by virtue of allocable costs established under the *Innovative Energy Technologies Regulation*) that is intended to reduce or offset the cost is provided by the Province of Alberta or the Government of Canada, or any agency of either of them, to the lessee or the operator or owner of the project in which the cost was incurred or to an affiliate of any of them.
- (3) A cost is not an “allowable cost” if any allocable costs as defined in the *Innovative Energy Technologies Regulation* have been established under that Regulation in relation to the cost.

AR 50/2000 Sched.1;250/2004

Schedule 2

Formula for Determining Upgrader Credits

1 In this Schedule, “API” means the American Petroleum Institute.

2 The formula for determining upgrader credits is as follows:

$$UC = BI \times 0.1 \times AF$$

where

UC is the amount of upgrader credits expressed in hectares for a year of a lease;

BI is the average barrels per day of feedstock bitumen inputted to the upgrader during that year of the lease;

AF is the allocation factor determined by the level of upgrading of bitumen during that year based on the difference in API gravity between the feedstock bitumen

and the upgraded product in accordance with the following table:

Table

API Gravity of Upgraded Bitumen	Allocation Factor
10° or less	0.00
11°	0.02
12°	0.04
13°	0.06
14°	0.08
15°	0.10
16°	0.12
17°	0.14
18°	0.16
19°	0.18
20°	0.20
21°	0.24
22°	0.28
23°	0.32
24°	0.36
25°	0.40
26°	0.52
27°	0.64
28°	0.76
29°	0.88
30° or more	1.00

NOTE: The above Table assumes the API Gravity of the feedstock bitumen is 10° API or less. Where the gravity of the feedstock bitumen is greater than 10° API, credit is granted only for the incremental improvement in gravity by subtracting the Allocation Factors for the feedstock and upgraded bitumen respectively.